EXHIBIT E

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A. RALLIS

Mr. C. E. Lavezzoli
Executive Vice-President

Re Ordinary Life Insurance -- Proposed 1988 U.S. Dividend Scales

This memorandum covers an important element of the pricing of our Ordinary Life insurance policies -- namely the apportionment of dividends for 1988 on United States business.

It is a central objective of our pricing system to provide our participating policyholders with insurance coverage at a price as near as practical to its actual cost. This means that, after providing for an appropriate level of contribution to the Company's surplus, earnings on the Ordinary Life insurance line of business are distributed equitably among the various classes of policies so that each class is self-supporting and receives a dividend properly related to the earnings of that class.

Recent History

The 1986 dividend scales for U.S. Ordinary Life insurance policies represented a major dividend scale revision, and resulted in an increase of over $130 million, the largest increase in Metropolitan's history. The 1987 Portfolio of life insurance products included a further improvement in illustrated dividends on new business which reflected a $75 million expense management plan beginning this year. If fully reflected in our pricing, this plan would increase dividends on our inforce business by $50 million and would improve our new business dividends and Universal Life pricing by $25 million.

When the change to the 1987 illustrated dividends was presented to the Board of Directors last December, we indicated that it was our intention to recommend corresponding changes in dividends for inforce policies at a future Board meeting to the extent that we experience expense improvements which affect inforce business.

Initial View of the 1988 Dividend Scales

If we simply followed our traditional approach to the dividend scales, a decrease of $100 million would be indicated for 1988 due to lower investment income. However, there is nothing in the underlying financial experience of the U.S. Ordinary Life business which indicates that this action is truly necessary and clearly this action would be unattractive vis-a-vis our competitive position. Given this apparent conflict, it became clear that we should consider altering our traditional pricing techniques.

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The Underlying Financial Experience

Our review of the underlying experience factors indicates first that mortality experience has continued at about the same level as in the recent past. With respect to expenses, we believe that our three-year expense management plan over the years 1987-89 is achievable, but if we were to reflect only the actual progress to date, then payable dividends on inforce business would be increased only $5 million (as compared to the ultimate $50 million figure mentioned above). And finally, while statutory investment income has declined this year (which by itself would generate a $105 million decrease in dividends), the underlying strength of the Ordinary Life assets suggests that, instead, an increase in the distributable interest rate might be appropriate at this time.

The Depressing Current Effect of Deferred Income Assets

Over the past six years, Ordinary Life has increased significantly its investment in deferred income assets (i.e., those assets such as real estate which have low or even negative early statutory returns, but which are expected to yield a high average annualized return over the longer run) from approximately $700 million in 1980 to $2.2 billion in 1983 and $5.4 billion in 1986. While the long-term value of these investments is very attractive, particularly after taxes, the current Ordinary Life portfolio earnings rate has been depressed significantly in recent years.

As displayed in Exhibit 1, this precipitous growth in deferred income assets has caused a reduction in the Ordinary Life portfolio earnings rate of more than 2%. This 2% represents a reduction in current earnings of more than $500 million per year.

Uncompetitive Market Position

Exhibit 2 summarizes the historical competitive analyses published by Best's over the last four years and shows that our ranking has consistently been at the very bottom of the 65 companies analyzed. While there are several factors affecting the historical rankings, it is instructive to note that if our distributable interest rate had been 0.55% higher over the last 10 years, our 1986 ranking would have improved 20 places to a level between John Hancock and New York Life but still 7 places behind Prudential.

Alternative Strategies to Address Deferred Income Assets

The central issue which we face in order to improve our competitive position is the current treatment of deferred income assets. Prudential, Equitable, MONY, Northwestern Mutual and many other companies reflect the increasing value of these investments in their current dividend scales while we do not. Possible approaches to this issue include the following:

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- Ignore depreciation.

  Statutory and GAAP earnings are conservative in that real estate investments are depreciated while market values are appreciating. The inclusion of this depreciation as if it were negative cash investment income, while tax-efficient, produces an unrealistic negative impact on both statutory and GAAP earnings. By ignoring such depreciation in our pricing, an additional $140 million would be available for distribution to our policyholders. This factor alone, therefore, would generate a $35 million increase in dividends (after netting out the $105 decrease in investment income noted above).

- Partial inclusion of unrealized capital gains.

  Starting this year, Canadian companies reflect in their financial statements no depreciation and add a markup equal to 10% of the excess of market value over book value. Since the U.S. Ordinary Life deferred income assets have substantial unrealized capital gains (approximately $1.1 billion), such an approach would generate a $250 million increase in earnings ($140 million by removing depreciation and another $110 million from the 10% markup). Therefore, this factor alone would enable a $145 million increase in dividends.

- Reflect current value of the underlying assets.

  Instead of distributing no current income to their policyholders on investments in deferred income assets, many of our competitors distribute a targeted annual return which is expected to be earned over the life of the investment. Such an approach with a 4% targeted annual return for our real estate and joint ventures would generate approximately $200 million for distribution to our policyholders which represents a $95 million increase in our dividend scales. If a different targeted annual return seems more appropriate, each 1% increase or decrease in the 4% target would raise or lower the distributable amount by $50 million.

Alternative 1988 Dividend Scales

Given the underlying financial strength of our U.S. Ordinary Life business, we are led to discard the approach which would reduce dividends by $100 million. Viable alternatives cover a range of possibilities, depending upon our view of expenses and investment income:

- A continuation of the current scale would be entirely justified since nothing in the underlying financial experience indicates that a reduction is at all necessary.

- Various increases in dividend scales could each be justified in a number of ways. Following are examples:

  $40 million -- reflect actual expense progress to date ($5 million) and ignore depreciation ($35 million).

  $100 million -- reflect actual expense progress to date ($5 million) and reflect a 4% current return on real estate and joint ventures ($95 million).

  $145 million -- reflect the full expense management plan ($50 million) and reflect a 4% current return on real estate and joint ventures ($95 million).

Cash Flow and Accounting

Since an increase in dividend scales generates no cash outflow and in fact increases our assets slightly, all of the above options can be supported without changing existing plans to sell or to retain specific assets. In addition, changes to our accounting methods can limit or even eliminate the impact that a change in dividend scales would have on our earnings.

- 70% of our dividends remain with Metropolitan as Additional Insurance or Dividends With Interest, and the combined effect of the gains tax and surplus tax generates a tax credit of 36%. Therefore, our assets actually increase by 6% of dividends paid, representing a net cash inflow.

- New York State regulations allow certain modifications to the accounting treatment of real estate. For example, the "Constant Yield Method" would lower the depreciation charged to (and therefore would increase) our earnings by $140 million. Another alternative could increase our statutory gain by charging joint venture losses directly to surplus (with no net change in the impact on surplus), and a third alternative could increase statutory surplus by charging some of these current losses to the Mortgage Loan and Real Estate Valuation Reserve.

- To the extent that the investment climate permits, we could extend our plans to realize real estate capital gains gradually over the next several years. While statutory gains would not be altered, GAAP income and statutory surplus would be increased.

The important point to note here is that cash flow and earnings need not necessarily influence our dividend scale decision for 1988 as long as we believe that the true underlying financial strength of this business can support the dividends. Both the investment decisions and the accounting decisions can be made independently based on their own merits.

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Projected Earnings for 1987 and 1988

Exhibit 3 displays projected earnings and surplus under the dividend scale options described above, assuming no change in accounting methods and that no additional capital gains are realized between now and the end of 1988.

Financial Controls

As we move forward with any one of these alternatives, it will be important to understand and report to senior management the continued impact of our dividend, accounting, and investment decisions. As was the case when we implemented our expense management plan, a critical step will be to establish tight financial controls to measure the results of these actions and to contain the risks so that we don't overextend our actions in relation to the underlying strength of this business (one measure of which is the unrealized capital gains which currently stand at $1.[illegible] billion).

Summary

We believe that any of the proposed alternative 1988 dividend scales for Personal Life Insurance policies are fair and equitable to each class of policies and are financially sound and fully supported by current and projected earnings -- particularly when the impact of deferred income assets is considered.

These possible 1988 dividend scales are preliminary in that they are based on our current projection of earnings for 1987, and a final recommendation will be presented at the October board meeting on the basis of then-projected earnings. The October recommendations will also cover dividends for other lines of Personal Insurance issued in the United States.

Stephen E. White
Vice-President and Actuary

July 9, 1987

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Assets & Investment Income
U.S. Ordinary
(in Millions)

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Exhibit 1

	Year-End Assets	Excl. Capital Gains: Stat. Inv. Income	Excl. Capital Gains: Earnings Rate	Including Capital Gains: Amort. of Capital Gains *	Including Capital Gains: Total Inv. Income	Including Capital Gains: Earnings Rate	Impact of Deferred Income Assets on the Portfolio Rate
1983							
Wholly Owned Real Estate	817.2	27.5	3.63%				
Joint Ventures	885.7	-57.5	-7.03%				
Subsidiaries	493.9	.0	.00%				
Total Deferred Income Assets	2,196.8	-30.0	-1.45%	.0	-30.0	-1.45%	
Other Invested Assets	20,123.6	1,653.6	8.63%	.0	1,653.6	8.63%	
Total Invested Assets	22,320.4	1,623.6	7.65%	.0	1,623.6	7.65%	-.98%
1984							
Wholly Owned Real Estate	1,398.5	43.3	3.91%				
Joint Ventures	1,182.0	-84.3	-8.15%				
Subsidiaries	465.5	.0	.00%				
Total Deferred Income Assets	3,046.0	-41.0	-1.56%	.0	-41.0	-1.56%	
Other Invested Assets	19,604.0	1,704.4	8.97%	.0	1,704.4	8.97%	
Total Invested Assets	22,650.0	1,663.4	7.68%	.0	1,663.4	7.68%	-1.28%
1985							
Wholly Owned Real Estate	1,857.6	84.3	6.18%				
Joint Ventures	1,631.6	-86.9	6.18%				
Subsidiaries	1,313.6	.0	.00%				
Total Deferred Income Assets	4,802.8	-2.6	-.07%	33.2	30.6	.78%	
Other Invested Assets	18,108.9	1,666.1	9.2[illegible]%	-3.9	1,662.2	9.22%	
Total Invested Assets	22,911.7	1,663.5	[illegible]	29.3	1,692.8	7.72%	-1.50%
1986							
Wholly Owned Real Estate	2,075.5	80.9	4.11%				
Joint Ventures	2,021.2	-107.0	-5.86%				
Subsidiaries	1,352.5	.0	.00%				
Total Deferred Income Assets	5,449.2	-26.1	-.51%	52.2	26.1	.51%	
Other Invested Assets	18,125.5	1,609.1	9.29%	77.7	1,686.8	9.77%	
Total Invested Assets	23,574.7	1,583.0	7.05%	129.9	1,712.9	7.65%	-2.11%

* Realized capital gains and losses are amortized over 5 years and are increased to a before-tax basis. The 1986 amounts include the total amortization of both 1985 and 1986 realized capital gains.

Personal Insurance Actuarial and Financial Controls
July 9, 1987

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BEST'S 10 YEAR DIVIDEND COMPARISONS

10 YEAR INTEREST-ADJUSTED SURRENDER COST INDEX COMPARISON

(MALE AGE 35 RATED STANDARD, POLICY ISSUED 10 YEARS PRIOR TO INDICATED YEAR)

	INDEX				RANKING OUT OF 65 COMPANIES			
	1983	1984	1985	1986	1983	1984	1985	1986
METROPOLITAN	7.12	7.23	[illegible]	6.98	59	60	64	61
EQUITABLE	4.83	4.68	[illegible]	3.99	10	10	11	11
JOHN HANCOCK	5.48	5.35	5.24	5.29	24	24	29	40
NORTHWESTERN	3.43	3.11	2.61	[illegible]	1	1	2	2
PRUDENTIAL	6.45	6.24	5.19	[illegible]	47	45	28	34
N. Y. LIFE	6.69	5.76	5.66	5.77	52	34	39	44

PERSONAL INSURANCE ACTUARIAL AND FINANCIAL CONTROLS

JULY 9, 1987

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Exhibit 3

Comparison of Earnings - Different Dividend Stategies

($ Millions)

	Traditional Approach	Current Scale	$ 40 Million Increase	$ 100 Million Increase	$ 145 Million Increase
1987					
Statutory Gain					
Before Dividends	1,133	1,133	1,133	1,133	1,133
Dividends	949	1,049	1,089	1,149	1,194
After Dividends, before Tax	184	84	44	-16	-61
GAAP Earnings					
Before Dividends	1,224	1,224	1,224	1,224	1,224
Dividends	999	1,049	1,069	1,099	1,122
After Dividends, before Tax	225	175	155	125	103
Statutory Surplus					
Beginning of Year	3,010	3,010	3,010	3,010	3,010
End of Year	3,220	3,160	3,140	3,100	3,080
GAAP Equity					
Beginning of Year	3,730	3,730	3,730	3,730	3,730
End of Year	4,010	3,980	3,960	3,950	3,930
1988					
Statutory Gain					
Before Dividends	1,131	1,131	1,131	1,131	1,131
Dividends	947	1,086	1,127	1,189	1,236
After Dividends, before Tax	184	45	4	-58	-105
GAAP Earnings					
Before Dividends	1,222	1,222	1,222	1,222	1,222
Dividends	948	1,086	1,108	1,169	1,215
After Dividends, before Tax	274	136	114	53	7
Statutory Surplus					
Beginning of Year	3,220	3,160	3,140	3,100	3,080
End of Year	3,260	3,110	3,060	2,980	2,930
GAAP Equity					
Beginning of Year	4,010	3,980	3,960	3,950	3,930
End of Year	4,140	4,020	3,990	3,940	3,880

* The earnings figures assume no change in accounting methods and no additional realized capital gains through the end of 1988. The statutory surplus figures assume that all capital gains realized in the first half of 1987 are added to the MSVR.

Personal Insurance Actuarial and Financial Controls
July 9, 1987

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Exhibit 3

Comparison of Earnings - Different Dividend Stategies

($ Millions)

		Traditional Approach	Current Scale	$ 40 Million Increase	$ 100 Million Increase	$ 145 Million Increase
1986 MSVR&MLREVR	550					
1987						
Statutory Gain						
Before Dividends		1,133	1,133	1,133	1,133	1,133
Dividends		949	1,049	1,089	1,149	1,194
After Dividends, before Tax		184	84	44	-16	-61
Tax		-29	-69	-85	-105	-127
GAAP Earnings						
Before Dividends		1,224	1,224	1,224	1,224	1,224
Dividends		999	1,049	1,069	1,099	1,122
After Dividends, before Tax		225	175	155	125	103
Tax		-51	-71	-79	-91	-100
Statutory Surplus						
Beginning of Year		3,010	3,010	3,010	3,010	3,010
End of Year		3,220	3,160	3,140	3,100	3,080
MSVR&MLREVR	625					
GAAP Equity						
Beginning of Year		3,730	3,730	3,730	3,730	3,730
End of Year		4,010	3,980	3,980	3,950	3,930
1988						
Statutory Gain						
Before Dividends		1,131	1,131	1,131	1,131	1,131
Dividends		947	1,086	1,127	1,189	1,236
After Dividends, before Tax		184	45	4	-58	-105
Tax		146	99	85	63	48
GAAP Earnings						
Before Dividends		1,222	1,222	1,222	1,222	1,222
Dividends		948	1,086	1,108	1,169	1,215
After Dividends, before Tax		274	136	114	53	7
Tax		143	96	88	68	52
Statutory Surplus						
Beginning of Year		3,220	3,160	3,140	3,100	3,080
End of Year		3,260	3,110	3,060	2,980	2,930
MSVR&MLREVR	625					
GAAP Equity						
Beginning of Year		4,010	3,980	3,960	3,950	3,930
End of Year		4,140	4,020	3,990	3,940	3,880

* The earnings figures assume no change in accounting methods and no additional realized capital gains through the end of 1988. The statutory surplus figures assume that all capital gains realized in the first half of 1987 are added to the MSVR.

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July 9, 1987

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